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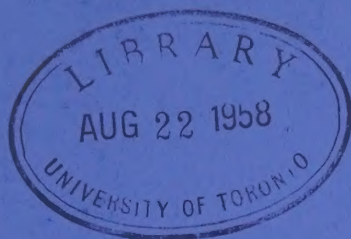
J. Allen Ross

Ontario - Hydro-Electric  
Inquiry Commission  
1922-24

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[Evidence]

HYDRO ELECTRIC INQUIRY COMMISSION

TORONTO, OCTOBER 4th, 1922.

NIPIGON SYSTEM.





HYDRO ELECTRIC INQUIRY COMMISSION

Parliament Buildings, Toronto.

4th October, 1922.

NIPIGON SYSTEM

Inquiry resumed, 10.30 a.m.

PRESENT:

W. D. GREGORY, Chairman  
M. J. HANEY, Commissioner  
R. A. ROSS, "  
J. ALLEN ROSS, "  
LLOYD HARRIS, "

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J.H.W.BOWERS, Secretary

F. W. WEGENAST, Legal Adviser.  
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THE CHAIRMAN: We will arrange for an adjournment till Friday morning at 10.30, Sir Adam, and, in the meantime, we will go on with our other witnesses. Perhaps you will let the Secretary have a list some time tomorrow as to whom you wish to have here on Friday.

SIR ADAM BECK: It depends on Mr. Pope and on Mr. Lucas. I did not hear anything about this sitting till Monday night when I came down, and the Toronto Railway Arbitration is being adjourned for Friday. I could have had another day set aside if I had known in good time.

THE CHAIRMAN: We sent the letter to Mr. Pope last Thursday telling him that we desired to have the members of the Commission present here yesterday.





FREDERICK A. GABY - Examination resumed.

THE CHAIRMAN: Mr. Gaby, in your estimates have you made any provision for what the Hydro will have to pay for the land upon which the plant stands at Nipigon ?

A..Yes, sir. We have provided for whatever that would be.

Q--How much is it ? A--I cannot tell you offhand.

Q--Have you had any correspondence with the owners of the land, as to the price which they ask ?

A--Negotiations have been entered into.

Q--I am speaking of the private owners?

A--I mean the private owners. As far as the lands owned by the <sup>crown</sup> are concerned, application was made years ago for the Patents in connection with that. As to what the position is with respect to that, Mr. Bowman will be able to tell you. I am only telling you what I have heard. I am not in direct charge of that work, that is under the Right-of-way Department which comes under Mr. Pope's charge. Negotiations have been going on before we started our work at Nipigon with the private owners there.

Q--That is a long time. They must have been going on for over four or five years? A--That is right.

Q--You know, of course, that you have the right of arbitration at any time to fix the price ?

A--That is a matter, I suppose, that has to be determined by the Commission as to when is the opportune time and what is the proper thing to arbitrate on.

Q--Who are the owners of the private lands ?

A--The Hon. Mr. Rowell is largely interested in it, and he is the man that has to be dealt with. He is largely interested in lands around the district.

Q--Does he own the lands upon which the buildings are

FREDERICK A. GABY - Examination resumed.

THE CHAIRMAN: Mr. Gaby, in your statement have you

made any provision for what the Hyatt will have to pay

for the land upon which the plant stands at Nipigon?

A. Yes, sir. We have provided for whatever that would

be.

Q--How much is it? A--I cannot tell you offhand.

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the land, as to the price which they ask?

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before we started our work at Nipigon with the private

owners there.

Q--That is a long time. They must have been going on

for over four or five years? A--That is right.

Q--You know, of course, that you have the right of

expropriation at any time to fix the price?

A--That is a matter, I suppose, that has to be

determined by the Commission as to when is the opportune

time and what is the proper thing to arbitrate on.

Q--Who are the owners of the private lands?

A--The Hon. Mr. Howell is largely interested in it, and

he is a man that has to do with it. He is largely

interested in lands around the district.

Q--Does he own the lands upon which the buildings are



located? A--Some part of the lands which we have to take, he and some associates.

Q--Mr. Lucas, I suppose, knows all about it?

A--Mr. Carrick is interested.

Q--J. J. Carrick ? A--Yes, and his interests.

Q--Does Mr. Marsh own any ? A--I don't think so.

Mr. Marsh's interests were all purchased by Mr. Carrick at the time of the transfer of the big interest to Mr. Carrick.

COMMISSIONER HANEY: Q--Have you provided any lump sum amount in your capital expenditure to provide for lands ? A--Yes, I believe so.

Q--In the six and a half millions ? A--No, no, that is the capital expenditure; in the additional.

THE CHAIRMAN: Q--So this would be in addition to that ? A--Yes, whatever it is. It should not be a very large amount. Land is not worth very much in that vicinity, and it is a very small area.

Q--Do the owners take that view, that it is not worth much ? A--Well, the owners are asking what we consider a very exorbitant price.

Q--What are they asking ? A--I cannot tell you offhand. It is exorbitant at any rate in our minds.

Q--Do you, know, Mr. Lucas?

HON. MR. LUCAS: No, I don't.

THE CHAIRMAN: The correspondence is there. Could you let us have the correspondence on Friday?

HON. MR. LUCAS: Yes, quite.

THE CHAIRMAN: Q--Who owns the land on which the power house is located ?

A--As I remember the plans, I believe it is partly Crown and partly Mr. Carrick's interest in connection with that.

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take, he and some associated.

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MR. LUCAS: No, I don't.

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THE CHAIRMAN: Q--Who owns the land on which the

power house is located?

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owned and partly Mr. Carlick's interest in connection



Q--And the land that you get from the Government what did you pay for it; that would be the ordinary Patent price ? A--Yes, that would be the ordinary Patent price.

Q--That would be a dollar or so an acre ?

A--I presume so. The matter has already been dealt with very thoroughly with the Departments interested. They understand the conditions thoroughly. It is only a matter of form.

MR. R. A. ROSS: Would that apply to any flooded lands around the Lake ?

A--Yes, I think it applies to all the flooded lands around the Lake, and we have the authority necessary from them to go ahead and cut the timber and flood those necessary lands.

THE CHAIRMAN: Mr. Gaby, how do you receive instructions from the Commission, are they verbal or written?

A--They are written, the Minutes of the Commission. The matter is dealt with by the Commission, and then the Minutes are my guide and instruction in connection with the way in which the work has to be carried out. The instructions are given at the time in the Commission meetings, and the Minutes are written later.

Q--Are letters written to you ? A--No more than the Minutes, unless it is very special, or something in that way. I make recommendations and they are approved, and authority is given to proceed with the work, as recommended, or as the Commission directs.

Q--Mr. Gaby, it struck me yesterday, when you were telling us of the price you are charging Port Arthur, which is far below the cost, that there was a very wide difference in the way you treat Port Arthur and in the way you treat, say, the Village of Tara, which we spoke







of last week. In Tara you charge them \$90 a h.p., which is about three times as <sup>much</sup> as the estimate originally, while in Port Arthur, although you say they make a profit of about \$50,000 you charge them far less than cost ?

A--As far as Port Arthur is concerned, the situation is the same, Mr. Chairman, and that statement that you make now is not based on the facts.

Q--I thought it was so stated in your evidence,

A--I simply said we billed them with \$25. We bill the Municipality of Tara a certain amount and render them a thirteenth bill at the end of the year with the difference that we find, and if we find that the rate with which we have billed them <sup>is</sup> insufficient to meet conditions then we raise that rate to try and meet the conditions. The same thing with Port Arthur. We make this rate based on our best judgment as to what conditions will be for probably two or three years, and we estimated, with the conditions and everything before us, and the contract which was being entered into, that \$25 would be the proper rate to charge, and that in the second year we would be able to carry out that rate, and in two or three years make up the difference. That is, I am referring now to the proposed contract with the successor to the Nipigon Pulp & Fibre Company.

Q--But take Port Arthur conditions ?

A--As far as the rate is concerned, it is an interim rate, and at the end of the year we bill them with the difference of cost.

Q--I understand all that, but I was only comparing the difference in rate as between Tara and Port Arthur, Port Arthur being only charged \$25 ?

A--That was all that was necessary last year. That is the surplus. The \$25 was sufficient to carry the

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proposition, as far as I remember, the last year.

Q--You showed a large deficit last year ?

A--The deficit, after taking care of the surplus in the hands of the Commission was, I think, nine hundred and some odd dollars, and they were billed with the full amount.

Q--According to Mr. Clarkson, the deficit last year was \$18,000 ?

A--We had in our hands a great deal more than \$18,000.

Q--You didn't bill Port Arthur with that \$18,000 ?

A--We had a surplus, from previous years, amounting to some \$900 odd, as I remember it.

Q--Your actual deficit last year, with the interest at the legal rate, which you agreed to pay, or that the Government charged, was over \$100,000, about \$140,000?

A--I don't know how that is made up, or how that amount is arrived at. I would have to obtain those figures to find out what it was.

Q--They are in your accounts ? A--No, they are not, sir.

Q--You appropriated some money from Port Arthur which you had in your hands at that time, that old accumulation?

A--Surplus, yes. We had a surplus, that is what I was referring to. That was \$29,000, as I remember it, and it left about \$970 as the difference.

Q--The deficit shown by the accounts was \$18,000, and then the interest, which you didn't put in your accounts, was \$77,000 ?

A--Is that not \$73,000 ? There is a certain amount of capital.

Q--Yes, that is included, that is \$40,000. This \$40,000 shouldn't be included. It would leave it about \$37,000 instead of \$77,000. What struck me was that in Tara you charge them up pretty well with the cost while in Port Arthur it is a flat rate of \$25, and they

questioned, as far as I remember, in 1945.

Q-You showed a large deficit last year?

A-That deficit, after making some of the things in

the hands of the Government was, I think, about

and some 140 dollars, and they were filled with the 1945

amount.

Q-You showed a deficit last year, didn't you?

A-We had in our hands a deficit of

more than 115,000.

Q-You showed a deficit last year, didn't you?

A-We had a surplus, from previous years, according to

some 1940 old, as I remember it.

Q-You showed deficit last year, didn't you?

A-That deficit, which you agreed to pay, was the

Governmental deficit, was over 115,000, about 114,000.

Q-You showed that it was 115,000, or less than 115,000?

A-That's what I said. I would have to obtain those figures

to find out what it was.

Q-You are in the company? A-Yes, they are not, sir.

Q-You are in the company of that man, are you?

A-Yes, yes. We had a surplus, that is what I was

referring to. That was 115,000, as I remember it, and

is just about 115,000 as the difference.

Q-That deficit shown by the accounts was 115,000, was

that the deficit, which you didn't put in your account?

was 115,000?

A-Is that not 115,000? There is a certain amount of

Q-That, that is included, that is 115,000. That

115,000 deficit is included. It would have to be

115,000, that amount, 115,000. That amount is what I

was referring to when I said that it was 115,000.

Q-That amount is what I was referring to when I said



are not billed with anything more than \$25, so far as I understood it from what you have told us ?

A--They are billed with the whole amount, Mr. Chairman. That is on the thirteenth bill which is rendered to the Municipality, as far as the costs are concerned, the same as is rendered to any other municipality. The surplus which we had in our hands was \$973, or the difference after those things had been taken care of. That is the amount that they still owed the Commission.

MR. GUILFOYLE: I might verify that. The \$900 odd that Mr. Gaby has in mind is the difference owing to the Commission on the \$25 billing after applying the surplus of the year before.

MR. GABY: On the surplus as accrued.

MR. GUILFOYLE: Over and above the \$25 billing.

THE CHAIRMAN: That is over and above the \$25?

MR. GUILFOYLE: Yes, that is over and above the \$25.

THE CHAIRMAN: And if the interest were included in the statement at the rate charged by the Government it would amount to some \$37,000 more ?

MR. GUILFOYLE: Yes, if it were shown at the rate charged by the Government it would amount to some \$37,000 more.

THE CHAIRMAN: And they were not billed with that at all ?

MR. GABY: They were not.

MR. GUILFOYLE: That is right, they were not billed with that at all.

MR. GABY: What I had in mind here was this letter to Port Arthur in which we had billed them with \$25 a horsepower, showing an amount of \$37,701 in excess of power bills rendered for that period, and after deducting from that the \$29,721.31 which was in our hands





left an amount due of \$979.70.

THE CHAIRMAN: Q--Then how much stands on your books now against Port Arthur ?

A--I would have to refer to the books, I haven't got that information.

Q--Now, in the case of Tara -- which I just mention for the purpose of comparison -- you brought your rates up to a figure which was supposed to meet this charge which you were making against them. Why didn't you do the same with Port Arthur ?

A--Well, in the municipalities, in the first two or three years of their operation, it hasn't, as I stated yesterday, been the policy of the Commission to do that.

Q--Port Arthur has been operating for 12 or 14 years?

A--True, but they haven't been operating from Nipigon for 12 or 14 years. The Nipigon is a new development, practically the same as entering into a new contract, as far as Port Arthur is concerned in regard to this development.

Q--And that is the reason that you have not raised the rates ? A--Well, not all the reason. The reason was that the Commission, in its judgment, with the information which it had before it, figured that a \$25 rate, with the data and contracts that were contemplated and in progress of negotiation in two or three years would be sufficient to take care of all the costs of operation at Nipigon less sinking fund on the 5 per cent basis.

Q--I understand that, although you say this is a new system, you took \$29,000 accumulated in the old system and applied it on the current accounts ? A--True, that is money that had been accumulated in surplus account and we applied it against any deficit.

Q--But it was not treated as a distinct system ? A--No.





But it is a very great change insofar as the supply of power to that system is concerned. Not only a change in the method of supplying power, but a very large capital expenditure had been made, and it would seem unreasonable to load on to the municipalities, unless they had some way of carrying the full charge of operation in addition, so far as the full charge of the plant was concerned.

Q--So that is the reason why you treat the two different?

A--That is the reason, in my opinion, why the Commission treated the matter differently. They are not, in a sense different, because we have billed the municipalities on the rates that have been estimated, and the Commission authorizes the carrying of these deficits for at least three years, under the Act. They charge them to the municipalities in the books of the Commission, but do not collect them.

Q--There is a question as to whether the Act applies, seeing that Port Arthur was a Hydro municipality prior to that?

A--Well, that is a matter of the Commission's judgment, in view of the very great change that has taken place in the method of supplying power to the municipality.

COMMISSIONER HARRIS: If you comply strictly with the Act what will you have to charge Port Arthur this year?

A--We will have to charge them up or bill them with the 5 per cent interest due on \$128,000 without renewals or without sinking fund, \$127,000.

Q--Well, the estimated deficit this year runs from \$267,000 up to \$400,000 ?

A--That is on estimates which you have made as regards sinking fund and depreciation and increased interest.

Q--It is the estimate that the auditor has made?

Q-It is a very great change in power as the supply of power to that system is concerned. Not only is there in the method of supplying power, but a very large change in the method of supplying power, and it would seem to me that to look on to the transportation, which is the only way to carry the full charge of operation in addition, so as to the full charge of the plant was concerned.

A-That is the reason why you treat the two differently? That is the reason, in my opinion, why the Commission treated the matter differently. They are not, in my opinion, different, because we have billed the transportation on the basis that have been estimated, and the Commission authorized the carrying of those deficits for at least three years, under the Act. They charge them to the transportation in the books of the Commission, but do not collect them.

Q-There is a question as to whether the Act applies, because that Act was a Hydro manufacturing plant to

A-Well, that is a matter of the Commission's judgment. It is of the very great change that has taken place in the method of supplying power to the municipality. That is a matter of fact. It is very clearly established that the Act will have to operate for at least three

A-We will have to operate them up or fill them with the part that is not covered due on \$125,000 and not otherwise. It is about striking that \$125,000.

A-Well, the entire amount of the loan was \$1,000,000. It is on certain conditions that we have to return it. It is on certain conditions that we have to return it. It is on certain conditions that we have to return it.



A--I don't know whether he has made the estimates or not. It is based on certain estimates taking these figures into consideration.

Q--His statement was before us yesterday. It is the auditor's statement, not our statement?

A--But taking care of operating expenses, and interest charges based on the 5 per cent interest charge, there would be a deficit, as per the statement rendered to your Commission, without depreciation, of about \$127,000.

Q--That is the figure the auditor gave, \$127,000?

A--As I stated, that was based on 5 per cent without depreciation and without sinking fund. That is taking care of full operation.

Q--Assuming it is what will you charge Port Arthur this year for their power to cover that \$127,000 deficit?

A--That will have to be charged in the books of the Commission against them. As to whether the Commission quoted it or not I don't know, but that will be charged against the municipalities taking power. As to how it will be dealt with I think that is a matter that the Commission will have to take care of.

Q--They have to deal with it according to the Act; they haven't any authority to deal with it otherwise?

A--No, unless some other arrangement is made with the Government and with the Commission.

THE CHAIRMAN: I am surprised, Mr. Gaby, that the Commission should treat this matter in such a light way. Here is a case where you know yourself that the legal rate of interest which you are liable for is 6.2. There is absolutely no question about it. The Legislature has fixed that, and nobody has any authority to change that but the Legislature, and here, although you know that is a charge against your System, you deliberately





leave that off your statement ? A..Mr. Gregory, I don't believe that, that we are treating the matter lightly. As I have already stated, we have dealt with the matter in accordance with discussions with the Cabinet Ministers, and it is also a matter that the Commission has dealt with in accordance with their understanding.

Q--You have no business to change the rate of interest. Can anybody write off a mortgage just because they have it ?

A--I am not dealing with the matter. This is a matter for the Commission to answer, and I am only telling<sup>you</sup> what I know about the situation, as to the arrangements with the Government in connection with this matter.

Q--They made no arrangement. The Government say they made no arrangements in respect to the moneys which came into your hands and the rates of interest charged.

HON. MR. LUCAS: Mr. Gregory, I think there is still some misapprehension in your mind. The rate, as I understand the law, has not been fixed by the Government.

THE CHAIRMAN: It has been, according to the Government, and statements rendered to you.

HON. MR. LUCAS: Well, I still think, Mr. Chairman, that that is not the law.

THE CHAIRMAN: Well, the auditor says it is, and the auditor says that you are liable for it.

HON. MR. LUCAS: Permit me to continue to make my statement. I still think that that is not the law no matter what the auditor says, because the law says, if I recall it rightly, that the rate of interest shall be fixed by Order-in-Council, and no Order-in-Council has ever been passed fixing the rate, and there is no Order-in-Council that I am aware of, or ever had any knowledge of, fixing that rate of interest.

THE CHAIRMAN: The auditor says it has been fixed





under the provisions of the sections of the Act dealing with that. I haven't looked up the Order-in-Council. You pay them in all your other systems, don't you, the rate fixed by the Government?

HON. MR. LUCAS: Allow me, having some knowledge of the law on the question, to state the difficulties in the way. For instance, during the war the Government borrowed certain moneys at high rates of interest for Nipigon and other Hydro development. They borrowed it at short rate dates, at high rates of interest. Now, they are still on their books charging those high rates of interest on short rate dates.

THE CHAIRMAN: And they are still paying it.

HON. MR. LUCAS: I submit not. Some of those loans have fallen in and are being replaced from time to time at lower rates, but the high rate of the temporary loan still continues. You will see, Mr. Chairman, the tremendous difficulties.

THE CHAIRMAN: Aren't you paying the amounts that they render to you in all your systems except this one, can you tell that?

HON. MR. LUCAS: I have no knowledge of that. I only know the tremendous difficulties of fixing the actual cost of money borrowed for temporary periods and replaced by new loans.

THE CHAIRMAN: But the Treasury Department knows that doesn't it? You mean they are not competent to make out the rate they are paying?

HON. MR. LUCAS: There is no attempt to do that. I am speaking now with some reserve. I think the Assistant Treasurer or the officials who are responsible, will say this: That there has been no attempt, in the charges made against the Hydro for interest, to arrive at the actual





cost, except in the way that I am indicating to you.

THE CHAIRMAN: We all know that, Mr. Lucas, and we know the moneys were borrowed for short term periods.

HON. MR. LUCAS: For short rate dates.

THE CHAIRMAN: Mr. Lucas, can you tell me of a single system in which you have not paid the rate which the Treasury Department has charged you ?

HON. MR. LUCAS: The point I am making is this: That the Government must assume the responsibility of passing an Order-in-Council fixing the rate, if I recall the law.

THE CHAIRMAN: Have you questioned the rate charged in any of the statements they have rendered to you?

HON. MR. LUCAS: I am not familiar with them.

THE CHAIRMAN: The auditor tells us you have paid it.

HON. MR. LUCAS: I was present at discussions with the Treasury Department, in connection with all these difficulties, and if my recollection and understanding is correct, no attempt was made to arrive, as the Statute says, at the actual cost of the money.

THE CHAIRMAN: Those matters are not settled ?

HON. MR. LUCAS: The Government has yet to fix the rate, they have not passed the Order-in-Council.

THE CHAIRMAN: It was stated yesterday that they had fixed the rate, and had rendered statements to you, that the rate had been made and put in all those statements, and that it had been paid in all the systems except this one. Will you dispute that ?

HON. MR. LUCAS: I ~~am~~ not disputing the auditor's statement.

THE CHAIRMAN: You know the Government has fixed the rate of interest at a certain rate.

HON. MR. LUCAS: I am only pointing out to you,





that before the rate is fixed an Order-in-Council must be passed. That Order-in-Council has not been passed yet, because of the difficulties in arriving at what the actual cost is.

THE CHAIRMAN: The bill has been rendered to you then, and you have paid the bill in every case except this one, and, as the auditor states, you are liable for it. It seems to me it is the flimsiest kind of ground to change your whole financial statement by changing the rate of interest.

HON. MR. LUCAS: I am pointing out the law.

THE CHAIRMAN: It isn't a matter of argument, it is a statement of fact.

HON. MR. LUCAS: What I am saying is that the Government has never yet assumed to pass this Order-in-Council fixing the cost, or fixing the rate.

THE CHAIRMAN: Mr. Lucas, now I am told that the Hydro did pay this higher rate, the rate charged by the Government, right up till last year, and then last year the change was made.

HON. MR. LUCAS: I am not familiar with the Accounting Department.

THE CHAIRMAN: I think not.

HON. MR. LUCAS: No, I am not.

COMMISSIONER HARRIS: Section 15, clause 1(a) of the Act states as follows: (Commissioner Harris reads section of Act in question).

HON. MR. LUCAS: The Government has not, in compliance with the section Mr. Harris has just read, passed the Order-in-Council fixing the cost of the money.

THE CHAIRMAN: Well, then, did you as legal adviser for the Commission call their attention to that and claim you were not liable?

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HON. MR. LUCAS: It was never submitted to me.

COMMISSIONER R. A. ROSS: On what basis then did you go when you were paying your interest?

HON. MR. LUCAS: I hadn't anything to do with the payment, or with the Accounting Department. I am simply pointing out to you that I know of the difficulties in the way of that, and that that rate has never yet been fixed. It is an open account as between the Hydro and the Government, because the Government has not yet assumed to pass the Order-in-Council, and they will need a great deal of information, without they disregard the law, to fix the rate at actual cost. I think the Treasurer will tell you that in a moment, that it isn't so easily arrived at.

COMMISSIONER R. A. ROSS: When the Government makes up its account, and gets down to passing an Order in Council then you will know what your rate should be.

HON. MR. LUCAS: That is it.

THE CHAIRMAN: And you have paid the rate right along.

MR. G. T. CLARKSON: As I explained to you yesterday, when the old Government was in power, and when we were amending that section of the Act, Mr. McGarry said to me that they were going to charge an extra rate of interest because money was costing them more, and that if the time should occur when there was any difference between the Hydro and the Government as to the rate to be charged that then I would be asked to come in and go over the matter and determine what it was. That time never occurred. The Hydro-Electric Power Commission has kept pretty fair track of the sale of securities by the Province, and has a pretty fair knowledge of what the money has been costing them from time to time, and there has never been any dispute between the Treasury Department and the Commission as to that rate.





THE CHAIRMAN: The Hydro has paid it in every case.

MR. CLARKSON: It has been paid, but I know the difficulties between the Treasury Department and the Government as to the rate, although it was not felt necessary to go to the formality of getting that Order-in-Council.

THE CHAIRMAN: It was felt that a fair rate had been charged.

MR. CLARKSON: It was felt that a fair rate had been charged, yes, and it has been within the knowledge and has been discussed by the Hydro Commission that some of the securities issued by the Province of Ontario, to provide money for this system and the Chippewa System, were short date securities, and the time was approaching when some of these securities would fall in and be refunded. They left it with us to take the question up and find out whether, so far as the Province is concerned, the rate of 6.2 per cent which was the average, should then be revised. Mr. Lucas is perfectly correct when he says, technically, that no Order-in-Council has been issued. At the same time, at the end of each year the Treasury Department will state to the Commission what the money was to be, and there never has been a dispute.

THE CHAIRMAN: The Commission has never raised any question.

MR. CLARKSON: No, sir, but in respect of the Nipigon System the statement was made to us, as explained in that report, that there had been an agreement to reduce the rates to 5 per cent. I have been talking to Sir Adam, and I think that he will make an explanation to you when he gives his evidence that will clear that up.

HON. MR. LUCAS: You are not aware of the fact of the discussions with Mr. Brown, the auditor, as to charging the high rates on short date loans that had been refunded?





MR. CLARKSON: I don't know what discussions you have had with Mr. Brown, but I know of our own discussions.

HON. MR. LUCAS: I think it was Mr. Brown, and I cannot recall the other gentlemen, from the Department, discussing this very question of interest.

MR. CLARKSON: I don't know what your discussions were.

HON. MR. LUCAS: We were discussing the rate of interest that should be paid and the difficulties in arriving at that if you were to arrive at actual cost.

MR. CLARKSON: We had our own discussions, as auditor of the Hydro, with that intention, of raising that question probably in the ensuing year, as to whether there should be a reduction in that rate or not.

THE CHAIRMAN: Have you any ground for believing that the Government has charged an unfair rate, whether that is higher than the rate paid?

MR. CLARKSON: I have no right to express an opinion on that.

THE CHAIRMAN: You have no reason to believe that ?

MR. CLARKSON: No, but I think the time is coming when the question of revisions in the rates of interest should come up, at the same time, to raise the question as to whether there might be an upward revision in respect of the earlier advances. The whole thing is on the carpet and has been under discussion.

THE CHAIRMAN: That is, that the Hydro has been receiving the money perhaps, at some time, at a less rate than the Government has been paying for it.

MR. CLARKSON: Four per cent in the earlier years, and later five per cent.

MR. GABY: In 1914, I think, they were paying four per cent. They got as low as three and three-quarter per cent. The Act provides for four per cent up to the change





in 1916 or 1917, providing for 4 per cent straight, no matter what the Government got.

HON. MR. LUCAS: Do you think that it is practical to arrive at the actual cost of the money?

MR. CLARKSON: It is going to be a very difficult matter, and I think the Government appreciate that, but I felt there was a desire on the part of the Government to charge them a rate which was considered to be fair, or felt to be fair, and a desire on the part of the Hydro to pay a fair rate. I don't think that, mathematically, you will be able to get at the exact rate, because of the numerous issues, but I do think if there is a downward revision you will get to some agreement in regard to a rate that is fair and equitable.

HON. MR. LUCAS: And if money is advanced within the next year or so at 5 per cent there will be a general decline in the whole rate.

MR. CLARKSON: Not necessarily. It is a very difficult problem, Mr. Lucas, because if the Government borrowed at 6 per cent on a 20-year bond there should not be a downward revision on that till that bond matures.

HON. MR. LUCAS: And it is almost impossible to say then what the rate should be.

MR. CLARKSON: It is going to be very difficult, but, nevertheless, I think with a desire on the part of both parties to get at what is equitable we can accomplish something.

HON. MR. LUCAS: And that some day the Governor-in-Council will pass the Order-in-Council?

MR. CLARKSON: Yes.

THE CHAIRMAN: Of course, that doesn't enter at all into this matter. It is just an arbitrary reduction of the rate, in the accounts of the Nipigon System.





COMMISSIONER R. A. ROSS: Where does the great difficulty lie in determining the amount, on the Nipigon System, as the proportion of the total, that is, in the estimate of interest ?

MR. CLARKSON: The difficulty in determining the average rate paid by the Government. Where the securities were selling at different prices, over the period of a year, or if you can take a certain period of years, say  $6\frac{1}{2}$  per cent interest paid on an issue and the whole of that money given to the Hydro Commission, then six months later there was a big issue and 6 per cent was paid on it, now, if you can earmark those you can tell pretty closely whether there should be a revision of rates. If you cannot earmark the issues then you have got to proceed on some equitable, fair idea of average.

COMMISSIONER R. A. ROSS: We are referring to application on bond discounts.

MR. CLARKSON: Yes, bond discounts.

COMMISSIONER R. A. ROSS: As far as the rate is concerned, in that document itself, that is easy enough to determine, but it is the question of bond discount.

MR. CLARKSON: If you sell a 5 per cent bond at a discount, the way they do to produce the rate  $5\frac{1}{2}$  or  $5\frac{1}{2}$ , the amount that you add to the rate shown on the face of the bond covers the discount.

COMMISSIONER R. A. ROSS: How many issues in a year will the Government turn out ?

THE CHAIRMAN: In recent years they have been fairly heavy.

COMMISSIONER R. A. ROSS: It seems to me it should not be a very difficult matter to figure it out.

MR. CLARKSON: We select an issue of \$5,000,000, 5 per cent bonds, to produce a rate of  $5\frac{1}{2}$ . Now, then, they charge



the Hydro  $5\frac{1}{2}$  per cent, that is, on the assumption that they have only made one issue of securities in a year, but if they go and make a dozen, or six, or eight or ten, each one at various rates of interest, at the same time making advances to the Hydro at different times in the year, then the question is not so simple from a mathematical standpoint.

COMMISSIONER HANEY: You have determined, Mr. Clarkson, last year that the average rate, according to your method or calculation, was 6.2 or 6.1, whatever it was.

MR. CLARKSON: Last year the rate was 6.5. We were averaging it all over. The figures were laid in front of us. Undoubtedly, the money was secured from short date issues, but there is a burden on the Hydro, and I suppose on ourselves, to see at the same time that if those securities are refunded that the Commission is entitled, and the Municipalities get a revision of the rate, and it would be all right if those issues could be earmarked. As I have stated, that has already been discussed.

COMMISSIONER HARRIS: That is what the Act says anyhow.

THE CHAIRMAN: We will hear from the Treasury Department as to the basis on which they have made up those rates.

COMMISSIONER R. A. ROSS: Q--Before you go, Mr. Gaby, in the evidence yesterday there was an indication that two offers had been made to the Great Lakes people for power, one at \$17.50 and the other at \$18.50; what caused the difference?

A--The \$17.50 rate was based on a  $4\frac{1}{2}$  per cent interest rate. That was after discussion with the Government at that time. Authority was given that we should use a  $4\frac{1}{2}$  per cent interest rate as the average rate, and so the rate of  $4\frac{1}{2}$  per cent was used on the \$17.50 figure, and in the case of \$18.50 that was the inter-City station rate. We had to spend \$500,000 additional, or up to that amount, to extend the lines





from the location in which we prepared the original estimate to the inter-City station, and we estimated it cost a dollar extra. The original agreement, \$17.50 was for the location of this plant, and the line that was to be north-east of the City of Port Arthur, and a thousand feet from that line; that was the original estimate of \$17.50. The \$18.50 was discussed in, I think, the year 1920 or 1921, and it was based on a 5 per cent rate of interest to the location of delivery point of the power, or at the inter-City station some six or eight miles away.

Q--So far as you remember, it was a case of difference in location? A--It was a case of difference in location, and also different interest rate.

Q--I have a letter here which shows you raised the interest rate from 5 to 6 per cent, March 21st, 1921?

A--We had several estimates, some made at 6 and some at 5 per cent.

Q--Are you quite sure that that inter-City station was then in contemplation at the latter date? A--Yes, sir. That was the discussion at that time, the two locations, or the mission and the inter-City location.

COMMISSIONER HARRIS: There was a statement made yesterday, that you now think the rates to both Port Arthur and Fort William will be the same?

A--You mean for industrial or domestic use?

A--I mean to the municipalities?

A--The rates would be the same to the municipalities.

Q--That was the original intention, that it should be, and then afterwards the Hydro Commission took the ground that the rate for Fort William would be \$2 higher than to Port Arthur?

A--No, sir, there has never been any change. It has always been the same, and our intention was always to give





a rate the same to both municipalities at the inter-City station. The \$2 you are referring to is \$2 that will be necessary to add to the price at the inter-City station to deliver that power at the Mission, or 8 or 10 miles further away. It would necessitate the construction of a very expensive high tension crossing of the River Kaministiquia, and a very large expenditure of money.

Q--Which would have to be carried over ?

A--It would be an extra cost of something like \$2.

THE CHAIRMAN: Q--Mr. Gaby, did you ever ascertain just how much that land would cost you? A--Yes, sir. We prepared estimates on what that would cost us. We estimated that the right of way, the land, would cost us nearly \$25,000 a mile. You see, it is through sub-divided city property.

Q--We were told up at Fort William that the cost would not be half the amount of the estimate ?

A--Well, you see the difficulty of that, sir, is this, the parties who referred to that might not have had all the information. For instance, if the right of way had been given us free instead of having to pay \$25,000 a mile, it would make a tremendous difference in the cost of the power. That alone would amount to nearly \$200,000.

Q--If you had that line there it would make considerable difference to the consumers taking power?

A--True. Whatever power could be taken off line would reduce the rate to the other consumers. They would assume their proportion of the cost of the line, but the original proposition was made -- and that on which the contract was submitted to the company, and discussed with their officials-- on a location to the north-east of Port Arthur, and the Commission agreed to extend the line a thousand feet.

Q--Is that the general practice in a municipality, to charge



people according to their location. In Toronto, a power line might have to be carried out six or seven miles to one, and a block, perhaps, to another, and they both pay the same ?

A--That would be the same in the case of Port Arthur and Fort William, where the power is being taken off the general system of that municipality. The rate is uniform over the system, but when you take a very large amount, in a special case, for the delivery of power --

Q--This wouldn't necessarily be a special case, but for the purpose of establishing industries there there might be a number of them all of whom might be served over this line ?

A--In this particular case it was a special case. That would come off the ordinary system of the municipality, and all customers on industries on that system would then pay the cost, because they would all be partners in that general distribution. This case was a delivery of power on a special line.

Q--That would mean then that Port Arthur would have an advantage over Fort William, owing to the fact of your location at Nipigon. The attitude you take is that if a man locates east of Port Arthur he pays so much for his power, and if he locates at Fort William he pays \$2 more?

A--That is, to the west of Fort William it costs \$2 more to deliver power to that point.

COMMISSIONER R. A. ROSS: Supposing they located on the boundary line, would there be any extra tariff?

A--In that case practically no extra charge. They would be right at the station. It would be the same to both municipalities. In the case of Port Arthur, Port Arthur takes this power at 110,000 volts, and has to build a line within this limit. Even if it was six miles they would have to obtain power from that system. That is a special case. The 110,000 volt line is a special





proposition, and it is not on the general system of the municipality.

THE CHAIRMAN: If you didn't carry the line there why couldn't you carry it along the lake front ?

A--It would be almost prohibitive. It is built up right along with grain elevators and other industries, all the way through, very expensive properties right straight through, through both Port Arthur and Fort William. It is practically impossible. A right of way would have to be 75 to 100 feet wide with clearance in order to construct those high tension lines. This would require quite a wide swath all the way through, and you can understand what means coming through the industrial and business sections of those cities.

MR. MORRIS (Fort William): Your inter-city station was to be round the golf links ?

A--I don't know where the golf links are . The inter-city station was practically to the north --

Q--Between the west limit ? A--The east limit.

Q--The west limit of both cities?

A--It was on the limit between both cities to the north.

Q--Do you know that there isn't a house or a building if you take a straight line from the Grand Trunk bridge to where you mention, it doesn't go through a settled portion of the city at all? A--Quite true, but the district is all subdivided.

Q--The Commission can easily get plans. They can have their engineer look that over. There is nothing between there and the Grand Trunk bridge where you cross, nothing at all? A--I quite appreciate that, but it is subdivided, all of that area, and we would have to go through the subdivisions.

Q--Do you intend to put high tension power through that





inter-city station or not, or lop it off as you come to an industry? A--If it is in the interests of the operation of that system for the municipalities, and it is going to be an advantage to the whole district to do that, yes.

Q--Yes, but you don't intend to do that. You stated once before to me that you intend to lop the high tension power off to each industry as you come to it, and it would be that much cheaper according to how much closer it was to Nipigon, and it would be the same with the Great Lakes Paper Company, the high tension would be lopped off without going to the inter-city station? A--Yes, sir, that is quite correct.

Q--So that there is a discrimination. It may not be a discrimination in your mind, but there will be an extra charge on high tension power in Fort William over east of Port Arthur? A--Under the conditions I said it would cost that much more.

THE CHAIRMAN: Mr. Morris, were you ever told that the rates would be the same in each place ?

MR. MORRIS: Q--Mr. Gaby, didn't you tell Mayor Murphy and myself that the rates would be the same for high tension power in both Fort William and Port Arthur ?

A--To the municipalities, yes, that is correct.

Q--No, no, we were discussing the Great Lakes Paper Company ? A--No, I didn't tell you that.

Q--You didn't tell us that when we got the Great Lakes to Fort William the price of high tension power for that particular company would be the same in Fort William as it was in Port Arthur ? A--No, sir.

Q--I think the Commission have on record the substance of my conversation, addressed to the Provincial Treasurer?

A--That may be true. You may have written that to him, but that was never stated by me to you. I told you that the



c rate on your local distribution system -- 22,000 volts, if that is high tension in your consideration -- would be the same to both municipalities.

Q--In the case of the small concern, why, we get the same rate, but when it comes to the big matter the rate is going to be different? A--If it is treated as a special case. It has 110,000 volts, and is strictly a line of its own, I say in that case it would be different.

Q--You know as well as I do that the Canadian National Railways own about eight to ten miles of harbour frontage south of where this Great Lakes was going to locate?

A--I don't know that.

Q--You don't know that you say? That is our industrial area? A--I understand that you have an industrial area, but I didn't know that the Canadian National Railways owned eight or ten miles.

Q--Of developed harbour frontage? A--You are informing me.

Q--And that is right where the Great Lakes were going to locate?

COMMISSIONER R. A. ROSS: Is that within the municipality?

MR. MORRIS: That is within the municipality. The Great Lakes site was just adjoining the municipality, the other is right in the municipality.

THE CHAIRMAN: Q--Mr. Gaby, of course, you will understand this is a matter of immense importance to Fort William. If the manufacturer locates there at the west end it means he has to pay \$2 a horsepower more than he would have to pay if he located in Port Arthur. It might determine the location of the industries, and result in that company opening up at Port Arthur instead of Fort William? A--The rates to the industries within the municipality are the same. With regard to the



of the same kind, and the same kind of work.

It is a very common thing to find the same kind of work.

and the same kind of work.

result is the same kind of work.

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It is a very common thing to find the same kind of work.

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Great Lakes, they were entering into a contract with the Hydro-Electric Commission, a special case, in which we had to spend considerable money to deliver power to that customer. We told them that it would cost us more to deliver power to the man some 15 miles away than it would to deliver power at Bear Point, and they wanted to get the lowest possible rate we could give them.

Q--I am not discussing your grounds, but you say it would have that effect? A--That is a special contract with the Hydro-Electric Commission, and we were delivering it through them at cost.

Q--If this industry was located just over the boundary of Fort William, would you supply it to them at the same price as you would supply it elsewhere ?

A--If it was located in the municipality of Fort William and supplied by the municipality of Fort William.

Q--No, no, supplied by you ?

A--If supplied by us, we would charge, as near as we could, the cost of delivering power to those customers, <sup>situation you</sup> If the/ suggest should occur, and that is this, that we have got to add three quarters of a million to a million dollars to our estimate, and average the cost of power, then it may mean that we would have to add this \$2, no matter where they located.

Q--Don't you think there is some argument in favour of having a zone in which the rates would be the same, just as in this city, where power is supplied to a manufacturer just within its borders, although it may cost a great deal more than it does to supply another one in a different location?

A--For general distribution in a number of consumers, yes.

Q--Of course, you will understand that there will be lots of other consumers locating ? A--There are not many





of that class, because the Commission wouldn't deal with the smallest consumer even if it were outside the municipalities. That would be taken care of on the distribution systems of the municipalities, but where you have special considerations, high tension power to be delivered to very large blocks, then it is a special consideration.

THE CHAIRMAN: Here is a letter, Mr. Gaby, from Sir Adam Beck to the Hon. Mr. Nixon. It reads in part as follows:

"Pursuant to the interview had with these gentlemen, they were advised that the price of power to the Great Lakes Paper Company would be the same if supplied at either of the locations suggested.

The price having been practically disposed of, the Commission have no jurisdiction respecting the location of the works, that being a matter resting with the contractors."

That letter is dated December 3rd, 1919.

MR. MORRIS: That is right after the interview I mentioned.

MR. GABY: Who is the letter from?

THE CHAIRMAN: From Sir Adam to the Hon. Mr. Nixon, Provincial Treasurer.

MR. GABY: I don't remember that. I don't know what location they were referring to.

THE CHAIRMAN: The locations referred to, I am told, were Bear Point and Mission.

MR. MORRIS: Q--We discussed with you the Mission site. That is what I say that you told us then, and that letter confirms it, certainly what was decided at the meeting held later on too. You were present at that meeting?

A--I am sorry I don't recall it.

Q--Did\_n't you tell us the result of that meeting?



A--I don't recall it.

Q--Didn't you tell us that the price of high tension power would be the same in Fort William as in Port Arthur, and for this particular industry, that having got that industry located in Fort William the price of power would be the same, isn't that right ? A--I cannot recollect.

Q--You were at that meeting ? A--I probably was.

Q--The price of high tension power would be the same in both cities, because it comes right in through the centre?

A--It might have been more in Port Arthur.

Q--If this development had been made at Dog Lake this wouldn't arise. Dog Lake is due west of both cities. Nipigon, on the other hand, is east, and we have to go all the way through Port Arthur, but Dog Lake is right in the centre.

THE CHAIRMAN: Q--However, this letter related to Nipigon ?

A--I don't know what that is. I will have to find out particulars in connection with it,

COMMISSIONER HANEY : Q--When the transmission line is finally completed from the Nipigon development at Cameron Falls will it have a capacity to transmit the whole of the power developed at Cameron Falls to the central station between Fort William and Port Arthur ? A--Yes. We erected, I think it was, three or four lines.

Q--I wanted to determine that, for the reason that these municipalities being responsible for this development primarily, and having the equipment to transmit the whole of the power there, it would appear unreasonable that intermediate stations would be supplied at a lesser cost than that given to Fort William and Port Arthur ?

A--That last question has put a different light on it. We will only build lines to the municipalities of Port Arthur





and Fort William of sufficient capacity to carry the loads that are obtaining at those points. We wouldn't build five lines when four lines are ample to take care of the load within that district.

Q--But the lines you have indicated in your report?

A--Yes, because we have figured on delivering their power at those points.

Q--The lines you have indicated in your report are to be constructed from Cameron Falls to Fort William?

A--Yes.

Q--And the cost is provided for that, I understand?

A--Yes.

Q--That being the case, you have sufficient transmission capacity, as you have stated, to carry the whole amount of power developed to Fort William and Port Arthur?

A--That is correct. We would only construct a line to serve the loads that we have contracts for.

There is another point I wish to bring out, and that is in reference to this matter of the same price to Port Arthur and Fort William, which I will look up the details of. I just want to make it clear that if power is sold at less than cost, no matter what the location is, both municipalities, Port Arthur and Fort William, will have to bear that loss. For instance, if it did go to Mission and there was a loss of say \$2 a horse power, that loss, of course, would have to be borne by the municipalities of Port Arthur and Fort William. We have no other way of carrying it on.

THE CHAIRMAN: If you paid \$2 for that and you got \$18, or whatever it may be, back it would be a most profitable transaction to do that rather than let the power go to waste? A--I am considering that.

Q--Mr. Wegenast tells me that the Great Lakes doesn't ask for high tension power, but it is for your convenience?

THE SECRETARY OF THE  
DEPARTMENT OF THE INTERIOR  
WASHINGTON, D. C.  
JANUARY 10, 1900  
SIR:

Enclosed for you are the reports of the  
Commissioner of the General Land Office for the year 1899.

I am, Sir, very respectfully,  
Yours very truly,  
J. M. McKIM

4--That being the case, you have indicated that the  
Secretary of the Interior is to be held responsible.

As you have stated, the Secretary of the Interior is  
responsible for the land office.

It is developed to the fact that the Secretary of the  
Interior is responsible for the land office.

It is also stated that the Secretary of the Interior is  
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responsible for the land office.



A--That is for delivery of high tension power to the Great Lakes people. We pointed out to them the most economical condition for both parties was the 110,000 volts. For the supply of the 22,000 volt power they were asking for it meant an additional expenditure of from \$300,000 to \$500,000. It meant putting in a transformer station of very nearly equal capacity, probably only 10 per cent less cost, to transform this, therefore, it wasn't an economical proposition for us. As far as the proposition is concerned, 110,000 volts is just as suitable to them as 22,000.

THE CHAIRMAN: Mr. Alstead, you have heard what Mr. Gaby has said, have you anything to say?

MR. ALSTEAD: Why, it was our understanding that the 110,000 volt delivery was solely for the convenience of the Hydro, because the transformers to be used by us in the handling of high voltage would cost a great deal more than handling lower voltage. We never asked for or insisted on 110,000 volts.

MR. GABY: In the cost of delivery, Mr. Chairman, of 110,000, we make a certain price. If we have got to put in \$300,000 to \$500,000 more capital then we have got to increase that price to take care of that additional capital investment. It would mean that instead of giving a price to the Great Lakes people of \$17.50 or \$18.50, as the case may be, at wherever the location is, we would have to add to that the cost of supplying that power to 22,000 volts. That would mean probably increasing it from \$1 to \$2 a h.p., depending on the quantity of power that they took. That is what we told those people, that as far as their cost of power was concerned it would be much cheaper for them to take 110,000 volts and put their equipment in, that is, taking their power from Fort William. For the industries in the municipalities, that is an entirely different situation.



It was simply put up to them as economics, that it would be cheaper for them, their cost of power in grinding wood would be cheaper if they took 110,000 volts than it would be to take 22,000 volts.

MR. ALSTEAD: The result of that, Mr. Chairman, was we never discussed \$20.50 power at 110,000 volts at Nipigon, because the rate was absolutely prohibitive. It made it impossible for us to consider going there. That was the result of it, but our impression was that if the power was coming to an inter-city point, and was then stepped down, it wouldn't necessitate the high cost for transmission at a lower voltage. If the power was carried through Fort William at high voltage there would be a distinct gain, in our opinion. However, we did not discuss those details, because the price at \$20.50 was absolutely prohibitive, that is, at 110,000 volts.

MR. GABY: In answer to Mr. Alstead's statement there, I wish to point out again that the \$20.50 was for 110,000 volt power. If we had to step that power down at the inter-city station and provide lines to deliver ten to twenty thousand h.p., low tension, it would cost more in capital expenditure to deliver that power than it would have to deliver the 110,000 volt power, that was the reason we recommended as we did.

COMMISSIONER R. A. ROSS: Mr. Gaby, if you sell the Great Lakes Power Company at the Mission site you don't then have to put in transformers for stepping down at your inter-city station? A--No, sir.

Q--In the estimate which you have made of \$13,000,000, did you contemplate that saving in your estimates, or did you contemplate putting in the equipment for the entire amount and stepping down? A--As I remember it,





we put in all except the 10,000. Yes, we have got sufficient equipment in that station to step down all except the 10,000 that we estimated for the Nipigon Pulp & Fibre Company. There is 80,000 K.V.W. in step down equipment in the transformer station in the estimate we submitted.

Q--So that you have allowed for the full step down of the whole output of your plant with the exception of that which is being delivered at Nipigon ? A--Yes. In other words, we could step down 50,000 h.p. with sufficient power capacity at the inter-city station on the estimates that we submitted to you for 1927.

Q--So that if you sold that power then at the site you would be able to cut out that extra cost which you would otherwise have to pay for step down equipment?

A--Yes, sir. The estimates in that case, as you have stated, will have to be revised for the inter-city station by the elimination of such equipment not necessary to supply the amount of power.

Q--Was that taken into account in the \$20.50 offer ?

A--That was taken into account in that offer. That was delivering it direct at 110,000 volts.

Q--You didn't need to consider that, you just short-circuited it so to speak ? A--We just went past it.

MR. MORRIS: Q--Mr. Gaby, if the high tension power is lopped off as you come to an industry, that would mean then that you are going to give a more favourable rate to the plants operating in Port Arthur than you would to a plant operating in Fort William? You told me that you were going to lop off the high tension power as you came to an industry? A--Mr. Morris, just pardon me. I said we

would lop it off at any point, and it is the most economical thing for the municipalities to do. I was going to state that it all depended on the expenditure that we would have





to make at that point as to whether the rate was lower or higher. As you know, the rate to the Nipigon Pulp & Fibre Company was higher.

Q--Exactly, but that is the fact. You know, Mr. Gaby, that there is probably \$15,000,000 or \$20,000,000 expended on the two harbours to develop them, and you know that area is large, and you also know that we haven't the population to make full use of that, yet you are putting up a discriminatory power rate in favour of vacant land?

A--I am not admitting your statement.

Q--Isn't that the fact? I say, if you lop the high tension power off at that point. A--I don't know that it bears on the merits of the case.

Q--So that, in considering that, you are only considering the economics from your own side, you are not considering the economic value to the city of filling up the area that is now developed, a big expense to the people?

A--I believe that the improvements which you have placed within your municipalities will be one of the factors in locating industries, and probably in most cases a bigger factor than cheaper power.

Q--If you put that on 22,000 volts it would have to go to the inter-city substation to be radiated from there, isn't that right? A--That I said it would have to go to the inter-city station?

Q--Yes, the 22,000 volt power would go to the inter-city substation to be radiated from there?

A--You mean the 110,000 volts?

Q--The 22,000? A--The 22,000 would go to the inter-city station?

Q--Yes. A--You mean the 22,000 would go through the inter-city station?

Q--Go through and radiate from there? A--The 110,000 would go through.



Q--I am speaking of the 22,000 ? A--The 110,000 would go through. I want to answer your question, and if you will please wait I will answer it. The 110,000 volt power goes to the inter-city station, and there it is transformed down to 22,000 and delivered to the municipalities at that point.

Q--That 22,000 volt power would have to go through the inter-city station whether it is in Port Arthur or Fort William, or east of Port Arthur? A--Yes.

Q--But the 110,000 volt power, if the industry used it in that way, you were going to lop it off when it came to the industry ? A--If it was in the economic interests of the municipalities.

COMMISSIONER R. A. ROSS: From purely an engineering standpoint I don't see how you can do anything else. As a matter of policy it is another matter.

MR. MORRIS: I am showing the effect of it as being a discrimination against Fort William.

COMMISSIONER R. A. ROSS: It is just the same as say between Hamilton and Toronto. Hamilton is nearer the source of power.

MR. MORRIS: Yes, but Mr. Ross, you have got to associate this with a lot of history. We do not think that anyone in Fort William would have voted for Hydro if it was going to be more expensive in Fort William than in Port Arthur.

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Q--I am assuming of the 22,000 V. A--Yes, 110,000

would be enough. I want to answer your question, and if

you will please wait I will answer it. The 110,000 volt

power goes to the inter-city station, and there it is

transformed down to 22,000 and delivered to the municipalities

also at that point.

Q--That 22,000 volt power would have to be changed to the

inter-city station whether it is in Port Arthur or Port

William, or east of Port Arthur? A--Yes.

Q--That the 110,000 volt power, if the industry used

it in that way, you were going to tap it off when it comes

to the industry? A--If it was in the economic interests

of the municipality.

Q--I am assuming that the power would be used in the

municipality, and that the power would be used in the

matter of policy it is another matter.

MR. MORRIS: I am showing the effect of it as being

a distribution against Port William.

COMMISSIONER R. A. HERR: It is just the same as saying

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consider this with a lot of history. We do not think that

anyone in Port William would have voted for this if it

was going to be more expensive in Port William than in

Port Arthur.

HON. PETER SMITH - Provincial Treasurer - Examined.

THE CHAIRMAN: Q--Mr. Smith, you are the Treasurer of the Government of Ontario?

A--Yes, sir.

Q--In the statement presented to us by the Hydro-Electric Power Commission of Ontario, in respect of the Nipigon development, the amount of interest payable by them to the Government is put at 5 per cent. We are informed by the auditor that the rate charged by the Government is 6.2 per cent.

MR. CLARKSON: I don't want you to get confused over that 6.2. That statement of ours shows 6.2, or  $5\frac{1}{2}$ , or  $6\frac{1}{4}$ , and  $6\frac{1}{2}$ . <sup>0</sup> These are the Government statements. The 6.2 was merely a figure that we have submitted for convenience, and showing the rate, as arrived at, and as it stands today over the four years. The Government know nothing about that 6.2

THE CHAIRMAN: I see, the average rate is 6.2.

HON. MR. SMITH: The average rate for 1921 was 6.5.

THE CHAIRMAN: I mean the average rate for how many years, Mr. Clarkson?

MR. CLARKSON: Four years.

THE CHAIRMAN: The average rate payable by the Government last year on its indebtedness was 6.5?

HON. MR. SMITH: Yes.

THE CHAIRMAN: So that you charged the Hydro less than the rate payable by the Government for last year.

HON. MR. SMITH: Well, we didn't receive the amount of money that we expected, that we billed them for.

THE CHAIRMAN: Oh, yes. The rate was 6.5, but the rate in former years had been less than that?

HON. MR. SMITH: Yes.

THE CHAIRMAN: And the average for the four years was





practically 6.2 .

A--That is what Mr. Clarkson says. I don't know.

Q--Had the Hydro Commission any authority from the legislature, or did the legislature make any change in the law that existed under section 15, sub-section 1(a) which reads as follows:

"The Commission shall pay to the Treasurer of Ontario annually interest on the indebtedness of the Commission to the Province for moneys advanced to the Commission by the Province, as may be from time to time determined by the Lieutenant Governor in Council as sufficient to reimburse the Province the full amount of interest paid by the Government on moneys raised for the purpose of the Commission, and the charges incurred by it in providing such moneys."

Did the Government do anything to authorize the Hydro to fix that rate of 5 per cent ? A--No, not that I am aware of. It didn't come to my attention until probably, I would say, two months ago, that they had only paid a 5 per cent rate on the Nipigon interest charges. To the best of my knowledge -- I am only speaking from memory -- Mr. Matthews came to me and we were discussing the Hydro interest for the present year, and he said "Do you want to make any reduction to them on Nipigon for this year the same as you did last year", and that was the first intimation I had that there ever had been any reduction made. I began to inquire and found that they had paid a 5 per cent rate for last year, which covered the period from the commencement of the Nipigon development for the years 1919, 1920 and 1921.

Q--Mr. Gaby told us yesterday that an interview was held in January, 1920, at which you were present, and Mr. Drury and others, and that an agreement was there



made by the Government, or a promise made, that the rate of interest should be fixed at 5 per cent in respect of Nipigon? A--Well, I cannot recall anything about it. I never remember of anything of the kind being mentioned in my presence.

Q--There is no entry in your book to suggest that the rate, in this particular case, should be 5 per cent?

A--No.

Q--And they are charged with the rate according to the statement which was rendered? A--Yes.

COMMISSIONER R. A. ROSS: Q--Mr. Smith, previous to the war, the rate paid by the Hydro was 4 per cent, wasn't it?

A--I believe so.

Q--Was that established by Order-in-Council, or was it statutory? A--Statutory, I think.

Q--What had occurred since that time to change the Statute?

A-- Well, it was changed by the Legislature.

Q--By another Statute? A--Yes.

THE CHAIRMAN: The one I have just read.

COMMISSIONER R. A. ROSS: So that, up to that time, there was an established rate? A--Yes.

THE CHAIRMAN: Q--We were told by one of the witnesses today that Mr. McGarry had a change made, because the Government was charging Hydro less than the money cost them? A--Exactly.

Q--Did the Hydro Commission pay to the Government in respect of the Nipigon development the full rate charged by the Government up to last year? A--I believe so, I am sure they did. There was no argument about it whatever.

Q--And the deduction made this year included -- I mean this last year -- the money that had been paid by the Hydro in respect of this very development in former years? A--Yes.





COMMISSIONER HARRIS: How did you treat the money that was paid by the Hydro? It wasn't entered on your books as payment in full? A--No, it wasn't entered on the books as payment in full. We have acknowledged receipt of the money, as I understand it. Mr. Matthews would have that information for you, I really cannot tell myself.

MR. CHARLES MATTHEWS - Deputy Treasurer: It wasn't entered as payment in full. At the end of each year we prepare a statement determining the average cost of the money to the Hydro, and the officials of the Treasury Department get in touch with the officials of the Hydro and come to an agreement on the figure, but we didn't know anything of the 5 per cent reduction, except that it was deducted. Why, we did not know, and we merely accepted the money at the time.

COMMISSIONER J. ALLEN ROSS: Q--Did you raise any question at the time, Mr. Matthews?

A--My recollection is that I was told by the Treasurer of the Hydro, Mr. Gilmour, that there had been a deduction made, but I knew nothing of the reason for it.

Q--But you didn't refer the matter to the Hydro to find out why the additional  $1\frac{1}{2}$  per cent was not paid?

A--I understood from Mr. Gilmour that an arrangement had been made. He assured me an arrangement had been made with the Government. I knew nothing of it. It was the end of the year and we have to close up, and I accepted the money and told him if there was any adjustment to be made it would have to be made afterwards. That is merely my recollection.

THE CHAIRMAN: Q--Then, Mr. Matthews, I understand that each year your Department ascertains what the cost of money has been about for that year?

A--Yes, sir.





Q--I have a statement here showing the rate for 1918 as 6.188 ? A--Yes, sir.

Q--1919, 5.341, 1920, 6.2 and 1921 6.5. How are those rates arrived at ?

A--By taking the total amount of loans issued in a year at the cost rate, determine the amount of interest, and average it up. That is, say a loan of \$10,000,000 would cost us 6.25. \$5,000,000 costs probably 6.10, and we compute the interest on it for a year, supposing it is six months we do the same, compute the interest for a year and take the average, dividing the total amount of the loan into the total amount of interest for the year.

Q--In making up these amounts do you charge any profit on the transaction for the Government? A--None whatever.

Q--That is just the bare cost to the Government?

A--The bare cost.

Q--So that those include nothing more than what the Government has to pay out in respect to the loans ?

A--Absolutely.

COMMISSIONER R. A. ROSS: Q--Supposing you sell a thousand dollar bond carrying 5 per cent, and you only get 80 for it. You get \$800 then, and that \$800 is, presumably, handed over to the Hydro as cash, and your interest rate then that you charge them per year will be multiplied by your 6 per cent or 4 per cent, or 6.4, as you will charge them for the year. At the end of the time you have got to refund that money and you have got to make up the 20 per cent discount that you have lost. How do you make it up? A--That is covered in the cost of the loan.

If it were sold at 80 it wouldn't be a 5 per cent loan. It would probably be a <sup>7</sup> per cent loan, and the 7 per cent would be charged to the Hydro to replace that discount.

Q--Take simple figures: Supposing you sell at 80, and you turn that over as cash to the Hydro, and then that is



put out at say 4 per cent interest rate. That would be 5 per cent on the cash actually handled, wouldn't it ?

A--Yes.

Q--5 per cent, not 4. Now, then, do you add an additional amount to that 5 per cent to make up the 20 per cent discount that you have to make up? A--No, Sir,

Q--At the end of the refunding period? A--No, sir, because the 5 per cent takes care of it.

Q--It only takes care of the interest, it doesn't refund it? A--It covers the discount. It costs you 5 per cent for your money not 4 per cent, and, for the period of the loan, you charge the Hydrp 5 per cent, that takes care of the 20 per cent discount.

Q--It cannot? A--Why not?

MR. CLARKSON: If you sold a thousand dollar bond for 80 you are getting \$800, and on that \$800 you have \$40 interest, or 5 per cent interest. Then, in addition to that 5 per cent, you have to add another rate of perhaps one-half per cent or 1 per cent, making it 6 or  $6\frac{1}{2}$  per cent. The additional 1 per cent or one-half per cent meets the discount of 20 per cent; when you sell the bond in the market, say a thousand dollar bond, the broker comes along and offers you 95. Supposing the rate is 5 per cent, the rate will then be  $5\frac{1}{2}$ , or  $5\frac{1}{2}$ , and that additional point in there is meant to amortize the discount.

COMMISSIONER R. A. ROSS: That is exactly what I am trying to get at. Was that done in this case?

MR. CLARKSON: It has to be done, because they sell to the Province, and the Province pay at a rate of 93, or 94 or 95. They buy from the Government at a rate of 5.15, so that the Treasury Department knows the interest it is paying on that loan, that interest being sufficient to amortize the discount. That is absolutely clear, Mr. Ross.





COMMISSIONER R. A. ROSS: You have given say \$800 then to the Hydro, and against that you have got a bond out for a thousand dollars. When you are figuring the costs to the Hydro, or the Hydro are figuring their capital costs, what do they show, what do they take, the bond?

MR. CLARKSON: No, no, they take the money.

COMMISSIONER R. A. ROSS: So that in figuring up then estimates on the Hydro you have got to make an allowance eventually for the bond discounts?

MR. CLARKSON: The Hydro is not concerned with bond issues, or anything else, but instead of paying 4 per cent they have to pay 6 or  $6\frac{1}{2}$ , and part of that interest goes to amortize the discount. The Hydro only deals with the money that comes to them. So far as the Government is concerned, it gets back all the interest rate and something for amortization of the discount.

HON. MR. LUCAS: Those rates that have been given, this cost of rate, for money, takes care of all discount.

MR. CLARKSON: Certainly.

COMMISSIONER R. A. ROSS: So that the Hydro is paying 100 instead of 80?

MR. CLARKSON: It pays an additional amount. No, no, it means this, Mr. Ross, that if the Government sells a 4 per cent bond it goes and hands over to the Hydro \$1000 on a 4 per cent interest rate, but the Hydro has to pay, in addition to the 4 per cent, an additional rate of interest. It has to pay \$40 a year in interest to recoup the Government on the discount.

THE CHAIRMAN: If I borrow money and lend it again the borrower isn't at all concerned with the terms on which I borrow it at.

MR. CLARKSON: The difference is this that instead of





capitalizing it the Hydro adds that discount out of its earnings.

COMMISSIONER R. A. ROSS: As a matter of fact, the capitalization is not as high as it should be by virtue of that fact.

MR. CLARKSON: It just depends on the way you treat it. When we are dealing with the accounts of private companies we deduct this discount and make them write it off year by year, as a charge against their revenue. Take the Ontario Power account, for instance: We charge a proportion annually, every year, to their operating expenses. It is absolutely sound financing. Sometimes they capitalize it, Mr. Ross, which isn't sound financing.

THE CHAIRMAN: I think if the Government loaned to other individuals on the same terms as it loaned to the Hydro it would have to increase its stock.

MR. CLARKSON: Why?

THE CHAIRMAN: Because they use their power to get money at a low rate, and they let it out without any profit.

MR. CLARKSON: That is the foundation of the Act, Mr. Gregory, it is a matter of policy.

THE CHAIRMAN: The private company would have to pay much more for it.

MR. CLARKSON: For the money?

THE CHAIRMAN: Yes.

MR. CLARKSON: Oh, yes.

THE CHAIRMAN: So they do gain from having the Government do the banking for them?

MR. CLARKSON: Yes, indeed.

THE CHAIRMAN: They are really paying a good deal less than a private company in the same kind of business?

MR. CLARKSON: Yes, certainly.

COMMISSIONER HARRIS: You apparently didn't deal



with the capital investment in Nipigon until the construction work was finished.

MR. CLARKSON: In what way ?

COMMISSIONER HARRIS: You bring it in all in one year.

MR. CLARKSON: Oh, no, that is just for convenience.

COMMISSIONER HARRIS: You dealt with that in every annual report before.

MR. CLARKSON: The exact interest is taken up; it is built up from year to year.

COMMISSIONER HARRIS: What did you do in the previous three years? Here you were still basing your interest charges on the actual cost, weren't you ?

MR. CLARKSON: Yes, we are now.

COMMISSIONER HARRIS: I mean, you bring it into this 1921 statement, showing the four years, and then tell us the cost.

MR. CLARKSON: That is just for information. That is brought in in that way with particular regard to this so-called understanding. That is why it was put in there, to show what the difference meant.

THE CHAIRMAN: Q--Could you say, Mr. Matthews, whether, in years past, the Government has been lending money to the Hydro at less than it had to pay for it itself ?

MR. MATTHEWS: Yes, sir.

Q--Have you made any estimate of the amount ?

A--No, sir.

Q--You mentioned just now that you did not make up the interest, that you conferred with the Treasurer or some official of the Hydro in fixing the rate? A--Yes, sir.

Q--You have done that each year? A--We have done that each year.

Q--And has the amount charged been practically agreed on





between you ? A--Yes, sir.

Q--And both parties satisfied with the fairness of the charge ? A--Yes, sir.

Q--And did the Hydro pay you year after year on the Nipigon at the rate fixed ? A--It paid the full amount on the advances made. I don't know whether on the Nipigon or not.

Q--On all their systems of which Nipigon is one ? A--Yes.

COMMISSIONER HARRIS: Q--They are not segregated in your books?

A--No.

THE CHAIRMAN: Q--Is there any entry in your books at all to show that the Hydro should be credited with any amounts in the Nipigon ? A--We have a note of it in our statement that the full amount of the interest in the advance is so much more than we have received.

Q--So that stands as a debit charge against the Hydro?

A--Yes, sir.

COMMISSIONER HARRIS: Q--You never agreed to this reduction, or never called the attention of the Treasurer of the Hydro to this \$77,000 ? A--No, sir, I knew nothing of it.

Q--Your books must show that they still owe you a lot of money ? A--Certainly.

Q--You borrowed money as low as  $3\frac{1}{2}$  and as high as  $6\frac{1}{2}$  per cent ? A--Yes, sir.

COMMISSIONER ROSS: Q--What is the Government paying on the average, on all its issues up to the present time, roughly ? A--I don't know, I would have to figure it up.

COMMISSIONER R. A. ROSS: It would be less than 6.2.

HON. MR. SMITH: You mean all issues?

COMMISSIONER R. A. ROSS: Yes.

THE CHAIRMAN: Since '67 ?

COMMISSIONER R. A. ROSS: Yes. You negotiated to lend money to the Hydro at the cost of money ?

MR. MATTHEWS: Yes, sir.





COMMISSIONER R. A. ROSS: Does it particularly show the cost of money for that particular year, or on the average?

A--On the average.

THE CHAIRMAN: Mr. Ross, I think you are mistaken. They didn't agree to lend it to them at cost. This Act only came into force in 1917.

HON. MR. LUCAS: That Statute was passed in 1917. Then the rate was fixed, I think, or the amount fixed by an Order in Council in 1918, I think.

MR. MATTHEWS: I don't know that it was fixed by Order-in-Council.

HON. MR. LUCAS: My recollection is that it was.

MR. MATTHEWS: I am not clear on it, sir.

HON. MR. LUCAS: Perhaps Mr. Smith in a very rough way could say how much the borrowings are from 1918 up to date, I mean short date. I don't want an accurate statement, or anything that will commit you to anything, because it is only very general.

HON. MR. SMITH: I would say \$35,000,000.

Q--Short date? A--Yes, short date.

Q--That has either fallen in or will fall in at an early date.

COMMISSIONER HARRIS: Q--What do you call short date?

A--Six months or under a year.

THE CHAIRMAN: Is three years the shortest?

HON. MR. LUCAS: Q--With all this that has either fallen or will fall in there will be substantial sums coming in now? A--Yes.

Q--What is the current rate on Ontario loans today?

A--About 5½.

COMMISSIONER R. A. ROSS: Your last issue was 5.01?

A--5.01.

HON. MR. LUCAS: Q--5.01? A--Yes.

Q--Now, then, speaking in a very rough way, there would



be \$35,000,000 of this short date stuff during the last three or four years?

MR. MATTHEWS: Yes.

HON. MR. LUCAS: Mr. Matthews perhaps will have it more in detail than you, Mr. Smith, but what you say is this, as I understand it, you take the cost of money borrowed in any one year and arrive at the actual cost of all money borrowed that year .

HON. MR. SMITH: Yes.

Q--And so you arrive at the figures given, your money borrowed at short date and long date ? A--Yes, sir.

Q--Running up to the highest rates ? A--Yes, sir.

Q--Now you report that at approximately 5 per cent or 5½ or whatever it may be, that is now or in the future ?

A--Yes.

Q--But you go and make your charges against the Hydro on all their advances at those higher rates continuously?

MR. MATTHEWS: Yes.

Q--That wouldn't strike you as equitable, would it, that is, you have borrowed money to the extent that you have advanced it which cost you substantially over 6 per cent at a short date ?

HON. MR. SMITH: Mr. Lucas, each year the money that is accruing to the Government from Hydro is based on that year's operations. Now, this will not carry out this high rate of interest after this year, 1922. I don't know what it is but it will be whatever the average is for 1922, and if the interest rate should go down to 4 per cent in 1925 Hydro will pay 4 per cent.

HON. MR. LUCAS: That is the point I want to make, but that is not the way you arrive at your amount. You arrive at the amount for 1918, and continue to charge the Hydro at that rate all the way down. (No, no)





MR. CLARKSON: Mr. Lucas must remember that from 1917 forward it has been an increasing rate. Now the turn has come and there will be a revision downward. It is easy enough. Take 1921, he can get his exact rate whatever it may be, 5½, and that may have an effect, if there is any re-funding, of reducing the interest on the loans for the prior years. In other words, 6.5 wouldn't continue after 1921. The rate was 4 per cent up to that change in 1917, when the revision of the Act was made, and at the same time the Government made the Commission pay 5 per cent from 1914 to 1917 as the cost of the money, and from 1917 you have had an increasing interest rate for most of those years. Now you are having a downward rate.

HON. MR. LUCAS: Do you know how the computation was made ?

MR. CLARKSON: We have a general idea how it was made up.

HON. MR. LUCAS: I don't understand the discussion that I had with the officials of the Department when we tried to arrive at the rate. I understood that they reached that amount by saying we advanced you \$15,000,000 in 1918 and it cost us that year 6.188, and we still continue to charge you 6.188 on the advances of that year.

MR. CLARKSON: Yes, but what I say to you now is this, you have commenced on the downward trend and now you get a revision.

HON. MR. LUCAS: We will get it.

THE CHAIRMAN: It is made every year.

HON. MR. LUCAS: Then I have totally misunderstood the auditor.

MR. CLARKSON: I don't know what your discussion with the auditor was .

HON. MR. LUCAS: I am speaking of the account as made





up by the Treasury Department, as to the amount of interest the Hydro owed the Government. Now, I am under a total misapprehension as a result of the conference with the auditor, if it isn't made up by taking the total advances in 1918 and charging the interest at the rate of 1918 down through 1919, and down through 1920, 1921 and 1922. If I am wrong, then I withdraw.

MR. CLARKSON: No, you are right, Mr. Lucas, except this, that about a year ago in our discussions with the accountants of the Hydro we came to the conclusion that there would be a reduction in the interest rate during the current year, which would call for a revision of the rates charged in respect of any 1918 moneys refunded in 1922, or any 1919 moneys refunded in 1922, or any 1920 moneys refunded in 1922, or any 1921 moneys refunded in 1922. That was discussed a year ago.

HON. MR. LUCAS: With the Hydro officials ?

MR. CLARKSON: Certainly

HON. MR. LUCAS: Then the conference went from the Hydro officials with officials of your Department, Mr. Smith.

MR. CLARKSON: I don't know that that conference has taken place.

HON. MR. LUCAS: A conference at which I was present, and I think I carried away the basis upon which the statement is made up by the Government.

MR. CLARKSON: Mr. Matthews, did you ever make a statement of interest up and give it to the Hydro?

A--They made their statement up and we made ours up, and agreed on it.

HON. MR. LUCAS: I mean this loan question.

THE CHAIRMAN: It appears that they have taken it up every year with the Hydro, and each have agreed as to



the rates being right and proper. Mr. Clarkson says that he is satisfied it is a fair rate, and the Government is making no profit out of it.

HON. MR. LUCAS: What I do say, in addition, is this: that as far as 1922 is concerned they can go on and compute their rate for 1922 moneys in just the same way as they have done before, that is probably the most equitable way, but in respect of moneys advanced in 1918, 1919, 1920 and 1921 the Hydro Commission is now bound to assure themselves that none of those securities have been refunded, so as to reduce that rate.

THE CHAIRMAN: If they are refunded at a low rate the Hydro should get the benefit of it.

HON. MR. SMITH: Where a loan had fallen due that had been sold, say, in <sup>1913</sup> at 4 or  $4\frac{1}{2}$  per cent the money ought to be renewed at a  $6\frac{1}{2}$  rate.

MR. CLARKSON: Mr. Smith, that is exactly what I said this morning. It results in a downward revision on some and an upward revision on others. This year is the first time really that the question of interest could be raised, because it was 4 per cent till the change was made in 1917, and in 1918, 1919, 1920 and 1921 there was an upward trend, but now you have got a downward rate.

COMMISSIONER R. A. ROSS: Isn't there a simple explanation of this whole question, between the 6.2 and the 5 per cent, and the misunderstanding with regard to what was arranged? The Statute<sup>t</sup> says you shall charge the Hydro such amount as will reimburse the Government for the interest paid. The question of 5 per cent arose in the discussion of the Great Lakes paper contract, a contract which had to run for 30 or 40 years. Now, seeing that the cost of power is a function of interest, and pretty nearly interest alone, how could they make a further contract





with any company if they didn't have an established rate of interest, and it seems to me that probably this misunderstanding has arisen in connection with that very thing, asking the Government if they couldn't undertake to have some figure which they could use for the purpose of determining what this power should cost.

THE CHAIRMAN: They say it was as to the rate which they should pay. The rate of interest, of course, is important, but the rate has been fixed by Statute, and the Government say they never would make any change, and they don't appear to make a change.

HON. MR. LUCAS: It may very well be, Mr. Clarkson, that the 5 per cent interest charge on Nipigon for the period of 30 years will fully comply with the statute.

MR. CLARKSON: It might be, when you get down to ten years from now, that the rate has descended to a 5 per cent basis. Nobody can tell what the future holds as to the interest rates.

COMMISSIONER R. A. ROSS: Up to 1917 it was possible for the Hydro to say with certainty what the rate of interest was. Under the present arrangement they cannot.

THE CHAIRMAN: No, they can only approximate it.

MR. CLARKSON: Mr. Gaby says up to 1917 there was a fixed rate, by Statute, that then there was some discussion with the Government and the rate, with the amendment to the Statute, was raised from 4 to 5. For the period between 1914 and 1917 that was done by agreement. Then, since that time, the rate charged has been the cost to the Government, year by year, of the moneys supplied in each year.

THE CHAIRMAN: And the Statute states that it shall be made up on that basis.





HON. BENJAH BOWMAN - Examined.

THE CHAIRMAN: Mr. Bowman, you are Minister of Lands and Forests, I believe? A--Yes.

Q--Have you taken up with the Hydro-Electric Power Commission of Ontario the question of the charge which the Government may ask for water at Nipigon?

A--If my memory serves me right, we submitted a draft lease to the Hydro, and I think, in that lease, we asked for one dollar a horsepower.

Q--What do you think would be a fair rate to charge to the Hydro, or how far would the Government be prepared to go? The Hydro, in its statement submitted to us, has put a price at 50 cents per horsepower sold?

A--Well, I think we would have no difficulty, with a commercial company, in getting a dollar per horsepower. Of course, with the situation as it is, as I understand it, it might be possible to reduce that for the Hydro.

Q--That is, if you had the waterpower there now undeveloped you think you might sell it to a company at one dollar a horsepower? A--I think we could without any trouble.

Q--But that, under the circumstances in which the Nipigon development is, you might make it less in that case?

A--Our revenue would be that much smaller, or Hydro would be getting credit for that amount. We are not getting a dollar per horsepower for all our powers, but we are for quite a number of them.

Q--For some of your large waterpowers are you getting a dollar per horsepower? A--We are getting a dollar a horsepower for most of the powers that we are leasing today. Of course, on the power leased some time ago we are being paid less.

Q--Is that for the actual 24 hours, or is that the power



generated ? It may be by good selling that a company will sell several times that amount of power ?

A--We only charge for the power developed on the 24-hour basis.

Q--What do you charge the Kaministiquia Power Company?

A--We don't charge them anything, the power was granted to them by legislation. My understanding is that they don't pay anything at all.

THE CHAIRMAN: Mr. Morris, how many years ago was that Kaministiquia power granted ?

MR. MORRIS: There was a good deal of legislation. Its atxsts back in 1893 when the first rights were given to Jennison, he then transferred his rights, and in 1902 they were taken away, and taken bp by Jennison again in 1904. There is quite a history to it.

THE CHAIRMAN: I know that the corridors used to be filled up with men from Fort William, Fort Frances or some other place up there.

Q--Mr. Bowman, the pulp lands of that district come under your jurisdiction. It has been made, I think, clear to us that a great deal of the success, or the possibility of putting the Nipigon development on a paying basis, so that it can meet the cost, would be through the sale of power to pulp companies. Is there any prospect of pulp companies being established in that district so that they would become consumers of power ? A--Well, Mr. Chairman, my idea is this, that I have been convinced of this during the last few years that if power could be sold so that it would attract industries in that part of the Province we would have no difficulty in taking up the power that is there. Apparently, the difficulty has been that the cost has been a little high. There are a number of pulp concessions sold now, and it seems to me that just as soon as this power question





is settled that they should go on at once developing and make use of a great deal of the power that can be supplied at Cameron Falls. I refer to the Great Lakes and to the Long Lake. I have an idea that they will come down, and then there is a new company in Port Arthur, I understand, and the Provincial Paper Mills which are increasing their plant, and if those companies would go ahead and develop, as they usually do, it would take a lot of power. We still have pulp lands there. It is a question in my mind whether we have room for more new industries or not. We have a considerable quantity of pulp, but there are some of the industries that have very little timber. For instance, the new company that is going into Port Arthur I think have no timber at all. If they have it is very little, and if those industries are going to extend they must have timber. I am not prepared to say whether we have room for new industries or whether we should limit the industries that are already established, or those about to be established, to extend. We would have to have a survey of some kind to find out just how much timber we have. We have a lot of timber lands in the Crown, all on the Nipigon Reserve, without question, and west of the Reserve is still in the Crown, and there is a portion east of the Reserve that is still in the Crown.

Q--There will then be plenty of pulpwood available for the present industries, and probably for one or two more?

A--It is possible there is room for more.

Q--And enough to encourage the present industries to develop their capacity? A--Yes, and to expand.

COMMISSIONER R. A. ROSS: Q--Mr. Bowman, do you see any other outlet for power except the pulp, in addition, of course, to the natural expansion of the municipalities there? Is there anything else in that district that would be likely to take power? A--Not in any large quantities.





Q--And the Government has the Forest question in hand as well as the Power question on hand? A--Yes.

Q--And one is not much good without the other and the other is not much good without the one? A--No. The timber in that district is largely pulpwood. There is some other timber besides, but largely pulpwood.

THE CHAIRMAN: The timber limits, some of them, about the Lake area are exceptionally good, are they not? A--There are sections that are very good, yes.

COMMISSIONER R. A. ROSS: What chance will there be for the establishment of a pulp industry at Nipigon? Is the harbour there good enough? A--I think the harbour is good enough. I am only speaking from what I have heard. I suppose the objection would be, with any industry establishing itself there, the matter of housing, they would have to provide housing.

Q--Build up a new town? A--Yes.

THE CHAIRMAN: Q--Mr. Bowman, I understand that the land at Cameron Falls has not been patented to the Hydro Commission. Do you know how that should be?

A--I didn't know anything about that until just very recently. I understand that the Hydro don't own the land that their building is on. I don't know whether it has been alienated from the Crown or not. It may have been or it may not, I am not prepared to say.

HON. MR. LUCAS: Q--Mr. Bowman, is it easily available for you a document showing the power leases and the rights of renewal; could that be prepared easily?

A--Yes. You mean the powers?

Q--The various waterpowers owned by the Government and leased, and the <sup>rights</sup> of renewal, and the income paid in each case? A--Yes.

Q--That could be filed with the Commission so that it is



available for us hereafter. A--Yes.

Q--Then in the Port Arthur-Nipigon district are there any available undeveloped waterpowers that are not now controlled by the Government?

A--You mean that have been alienated from the Crown ?

Q--Yes, held by private parties; I mean considerable development ? A--I know of none, with the exception of the Kamanistiquia. Then there is the Mount McKay and Kakabeka Railway. They have a waterpower.

Q--Where is that ? A--I can hardly say.

COMMISSIONER HANEY: That is below the Cameron development on the Kam. River?

A--There is a lease to those people.

HON. MR. LUCAS: Q--So that is privately controlled. What is the possible development there ? A--I cannot say.

MR. MORRIS: It is very small.

HON. MR. LUCAS: Q--What I meant, of course, was undeveloped waterpower in the undeveloped areas in the Port Arthur and Nipigon districts that are not now under development? A--I know of none.

Q--So that all this pulp area that now belongs to the Crown, if it is to be sold, must find power development either by a lease from the Government or from the power that is now available? A--Exactly. I should say that all the pulpwood that is in the Nipigon Reserve, or adjacent to it,, will be manufactured by the power developments in that area.

Q--So that some time and some day the pulpwood areas of that district must be manufactured by the Nipigon development, that is correct? A--Yes. There are other powers in the country that are still in the Crown.

COMMISSIONER HANEY: Dog Lake, for instance ?

HON. MR. LUCAS: But controlled by the Crown?





A--Controlled by the Crown.

Q--So that if a policy of the Government is adopted by which your pulpwood concessions take this power the future will be all right, won't it? A--I think if the price is attractive.

Q--Yes, but they must come and get power from you, or from the Hydro? A--In the concessions that have been sold, such as Long Lake they have a right to develop power in their concessions.

Q--Yes, but is there any power available for that?

A--I am doubtful whether there is enough power available for large industries.

THE CHAIRMAN: You think that if the rate were right the industries would come? A--I have no doubt at all but what they would.

COMMISSIONER HANEY: Q--What would be an attractive rate, Mr. Bowman?

A--Well, the pulpwood men would be better able to answer that themselves.

Q--You used the expression, and I thought you had in mind some rate that would be attractive.

HON. MR. LUCAS: They couldn't get it at less than cost, whether they develop it themselves or someone else?

A--I wouldn't expect them to get it at less than cost.

Q--What would you say as to the soundness, or otherwise, of the policy which provided for the Nipigon development to be put on a basis that would take care of the pulpwood requirements of the future? What would you say as to the policy which required the Hydro, in making this Nipigon development, to make it on a basis that would take care of the requirements of the pulpwood industry of that district?

THE CHAIRMAN: Of course, we have here a letter read from Mr. Pope that they wouldn't take into consideration the





pulpwood industry at all so far as the Great Lakes was concerned. It is rather difficult to determine just what the policy was from all the records.

HON. MR. LUCAS: It is a policy laid down very clearly in a letter on record, an official letter by the Government, the old Government, from Sir Wm. Hearst .

THE CHAIRMAN: And then there is a letter from the Hydro at a later date to Mr. Carrick saying they are not going to take into account that at all unless they have a contract.

HON. MR. LUCAS: Yes, but you have on file, have you not, a letter of Sir Wm. Hearst, directing that the development must take place, in order to take care of the Nipigon. There is much correspondence between Hydro and Carrick, trying to force Carrick into a definite contract.

THE CHAIRMAN: Yes, and they said they are not taking account of it in the development, and won't do so unless there is a firm contract.

HON. MR. LUCAS: But they did do so under the direction of the Government.

THE CHAIRMAN: They haven't done so yet.

COMMISSIONER HANEY: They haven't shown, in any of the statements, that they took the Great Lakes into account.

THE CHAIRMAN: I think we had better not go into questions of policy, which are very contentious.

HON. MR. LUCAS: Quite, but perhaps, Mr. Chairman, you might allow me to state that issue very clearly, in justice to the Hydro. The Hydro stands with direct instructions from one Government, absolutely directing them to make their development on a basis that will take care of the Great Lakes.

THE CHAIRMAN: And then the Hydro also took the stand, saying they will not make any provision for it unless they have a contract.



HON. MR. LUCAS: That is a letter written to a private company, trying to force them into a definite contract.

THE CHAIRMAN: And it is confirmed by the judgment of the Court.

HON. MR. LUCAS: Then that leads me up to the next step --

THE CHAIRMAN: I don't think it would be well to argue that.

HON. MR. LUCAS: The point is, we made the development to take care of an industry on the direction of a Government, but, so far, that industry has not taken that power.

THE CHAIRMAN: And the Court held it wasn't bound to.

HON. MR. LUCAS: I would be prepared, if your Commission think it is pertinent to the inquiry, to submit documentary evidence to show, apart altogether from the litigation --

THE CHAIRMAN: We will be glad, Mr. Lucas, to have you submit anything of that kind, but just at the present time we are endeavouring to confine this inquiry to the economics of the situation, although it is rather difficult to keep it within bounds. We will give you an opportunity to present those views later, or any others. Are you suggesting that the present Government should pay the deficiency ?

HON. MR. LUCAS: Oh, no, not at all, but I am suggesting in justice to the Hydro who are, on one hand, ordered by a Government to make a development to take care of the Great Lakes, and, on the other hand, the Great Lakes, through no fault of the Hydro, are not being compelled to take power.

THE CHAIRMAN: Of course, you see there are two sides to that question, and you may have the stronger side, or you may have the weaker side, but we feel we cannot take this up at this sitting.

HON. MR. LUCAS: I am not sure that you, Mr. Chairman, want to go into that question, as to whether or not proper





action was taken to compel the Great Lakes to go on and take the power. If you want to hear that issue the Hydro are prepared to submit that issue to you.

THE CHAIRMAN: We have gone into it pretty thoroughly from the documentary standpoint.

HON. MR. LUCAS: You understand, Mr. Chairman, it would only be possible at the request of this Commission that the Hydro would desire to submit the documents that they hold.

THE CHAIRMAN: They have submitted the documents to us, unless there are any more documents. By the way, Mr. Lucas, when you ceased to be Attorney-General you took, from the Parliament Buildings, a number of documents showing the correspondence between the Department and the Hydro. Could you let us have those?

HON. MR. LUCAS: I never took any documents away from the Parliament Buildings, not that I know of. I have nothing at all. Whatever the Private Secretary put up, I have nothing myself, with the exception of my own papers, but if there are any that I can submit I will do so.

THE CHAIRMAN: And those other documents which you say haven't been submitted to us yet, we will be very glad to see them.

HON. MR. LUCAS: Yes, they are on file. They have been brought to the attention both of the Government and of the Hydro.

THE CHAIRMAN: Mr. Wegenast in making a search says he has not yet seen anything of the nature you suggest.

HON. MR. LUCAS: They are on file with the Government,  
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the documents which have in my mind, it is correspondence.

THE CHAIRMAN: You will be glad to let them have any correspondence, and Mr. Wegenast perhaps will speak to you later. We will be very glad to have anything that you have, or anything the Hydro has, and if you have anything personally





I am sure you will be glad to let us have them. In sending up to the Buildings we were told that some of the files relating to the issue were yours, and that when you left the office you took them with you.

HON. MR. LUCAS: I know of no files of that character at all.

MR. MORRIS: There is a waterpower at Pigeon River, which is half way from Fort William.

COMMISSIONER J. ALLEN ROSS: What is the size of that ?

MR. MORRIS: That is on the boundary line. It is up at that end of the lake. That is not under the control of the Crown.

HON. MR. BOWMAN: That will be International.

THE CHAIRMAN: We will adjourn then until 10.30 Friday morning.

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